

# **PUBLIC DISCLOSURE**

**August 5, 2002**

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**HBank Texas  
Certificate Number 57027**

**4501 William D. Tate Avenue  
Grapevine, Texas 76051**

**Federal Deposit Insurance Corporation  
Division of Supervision and Consumer Protection  
1910 Pacific Avenue, 19th Floor  
Dallas, Texas 75201**

**NOTE:** This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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## GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

*This document is an evaluation of the Community Reinvestment Act (CRA) performance of **HBank Texas** prepared by the **Federal Deposit Insurance Corporation**, the institution's supervisory agency, as of **August 5, 2002**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 345.*

## INSTITUTION RATING

***INSTITUTION'S CRA RATING:*** This institution is rated **Satisfactory**.

This evaluation is the first for HBank Texas since its opening on October 23, 2000.

Pursuant to the Community Reinvestment Act (CRA), HBank Texas was evaluated under the performance factors applicable to banks with assets less than \$250 million at the end of each of the past two calendar years. Small bank assessment factors for the lending test are the bank's loan-to-deposit ratio, lending within the bank's assessment area, lending to borrowers of different incomes and businesses of different sizes, geographic distribution of loans, and response to complaints. Management waived consideration of the bank's investments and services as components in assessing performance.

At this evaluation, commercial lending was chosen for analysis to quantify the bank's CRA-related performance as commercial lending represents the substantial majority of the bank's lending activity with which to evaluate their performance under the regulation.

HBank Texas' overall performance relative to the requirements of CRA is considered satisfactory in light of the following conclusions concerning each assessment criterion:

- The average loan-to-deposit ratio of 41.81 percent is acceptable considering that this is a recently chartered bank. Hbank Texas has experienced steady loan growth since they opened in October, 2000. The loan-to-deposit ratio reasonably compares to those of competing area institutions.
- The bank originated a majority of both the number and the dollar volume of all commercial loans within its assessment area. This indicates satisfactory performance under this assessment criterion.
- Analysis of commercial originations since the bank opened in October 2000 supports a satisfactory distribution of loans among businesses of different sizes. The bank originated approximately 68 percent of the number of their total commercial loans in original amounts of less than \$100,000. A substantial majority of these loans were extended to borrowers with less than \$1 million in gross annual revenues.
- The geographic distribution of credit is excellent. Commercial lending was noted in geographies of all income strata with strong performance noted in both low- and moderate-income geographies.

## DESCRIPTION OF INSTITUTION

HBank Texas is an independent institution headquartered in Grapevine, Texas, operating from a single location. The bank is a de novo institution that opened in October of 2000. A “courier” or phantom branch has also been chartered to enable the bank to pick up deposits for local customers. The bank is primarily a commercial lender with emphasis on commercial real estate. Table 1 at the end of this section summarizes the current composition of the bank’s loan portfolio. The bank’s March 31, 2002 Report of Condition reveals total assets of \$39.2 million, total loans of \$17.3 million, total deposits of \$34.5 million, and total equity capital of \$4.7 million. Growth of both loans and deposits has been steady since opening.

HBank Texas’s headquarters is located in an upper-income area in Grapevine adjacent to the affluent communities of Colleyville and Southlake. The bank has no current plans to open any branch offices.

HBank Texas offers a full line of services that appears adequate to serve the needs of both commercial and consumer segments of its clientele in the assessment area. No legal or financial impediments were noted which would prohibit the bank from meeting the credit needs of its assessment area.

| <b>Table 1 – Loan Portfolio Distribution as of March 31, 2002</b> |                             |                               |
|---|-----------------------------|-------------------------------|
| <b>Loan Type</b>  | <b>Dollar Amount (000s)</b> | <b>Percent of Total Loans</b> |
| Construction & Land Development                                   | 3,231                       | 18.6                          |
| Farmland  | 0                           | 0                             |
| 1-4 Family Residential  | 2,292                       | 13.2                          |
| Multi-family (5+) Residential                                     | 0                           | 0                             |
| Commercial  | 3,636                       | 21.0                          |
| <b>Total Real Estate Loans</b>                                    | <b>9,159</b>                | <b>52.8</b>                   |
| Commercial & Industrial   | 5,431                       | 31.3                          |
| Agricultural  | 0                           | 0                             |
| Consumer  | 2,739                       | 15.8                          |
| Other   | 11                          | 0.1                           |
| <b>Total Loans</b>  | <b>17,340</b>               | <b>100.0</b>                  |

## DESCRIPTION OF ASSESSMENT AREA

HBank Texas has defined its assessment area as the northeast quarter of Tarrant County, bounded on the west by Interstate Highway 35W and on the south by Interstate Highway 30, plus those adjoining tracts in Denton and Dallas counties. Tarrant County is the primary geography in the Fort Worth/Arlington Metropolitan Statistical Area (MSA), while the tracts in Denton and Dallas counties are part of the Dallas MSA. The bank primarily serves the cities of Grapevine, Colleyville, Southlake, Keller, Flower Mound, and Irving, but the area also includes the Hurst-Euless-Bedford area and the commercial and industrial Alliance Corridor.

The assessment area contains 90 census tracts. Only three are low-income and sixteen are moderate-income. Of those remaining, 32 are middle-income and 38 are upper-income. One census tract is not classified. The bank is located in an upper-income tract in Grapevine and rests in the midst of the prosperous Grapevine/Colleyville/Southlake residential area. This portion of the county is almost exclusively upper-income. Middle-income tracts encircle the area, and the moderate- and low-income tracts are at the southwest extremity of the area approaching downtown Fort Worth.

The 1990 United States Census indicates a median family income for the Fort Worth, Texas MSA, which includes the preponderance of the assessment area, of \$37,571. The corresponding figure for the non-MSA portions of Texas is \$24,585. The United States Department of Housing and Urban Development (HUD) has estimated these figures at \$60,100 and \$35,800 respectively for 2001. Information from the census also shows that 13.7 percent of the assessment area's families are statistically low-income, 15.6 percent are moderate-income, 23.0 percent are middle-income, and 47.7 percent are upper-income.

Business demographic data from CRA Wiz, a commercial provider of economic and demographic information, reveals approximately 31,000 businesses in the assessment area. Of these, 98 percent are non-farm, with service and retail establishments accounting for about 59 percent. These businesses are predominately small in nature, with 76 percent employing less than ten people and 84 percent reporting revenues of less than \$1 million annually.

Economic forecast data obtained through FDIC's Division of Insurance indicates strong performance for the Fort Worth, Texas MSA. Unemployment for 2001 was 4 percent. While telecom and general manufacturing activity have lagged recently, air travel is rebounding more quickly than expected. Also the local defense industry, led by Lockheed Martin, is booming. Lockheed has recently won contracts that are expected to keep the company highly active for the next 30 years. Subcontracting work in the area is expected to benefit as a result. Economy.com, a subscription service utilized by the FDIC's Division of Insurance, summarizes the area's prospects as follows:

*Fort Worth will be one of the state's soundest economies this year, but a high concentration in lagging industries such as transportation, distribution, and telecom will hold its expansion below the nation's top-performing metro areas. Strong population increases, a generally high rate of homebuilding, infra-*

*structure advantages, and a favorable cost differential with neighboring Dallas will propel Fort Worth's growth through the next few years. Longer term, as development opportunities become more constricted and the present cost advantages erode, the economy will settle onto a more moderate but still productive course.*

In addition to Lockheed Martin, which employs almost 12,000, other major area employers include American Airlines (28,000), The Kroger Company (10,000), Texas Health Resources (8,800), and Bell Helicopter Textron, Inc. (6,000).

A recent community contact interview in the assessment area indicated that they expect continued growth and prosperity tied to the Fort Worth economy. The interviewee anticipated further commercial growth centered in retail and services and detailed numerous projects which have either recently opened for business, or which will open in the foreseeable future.

Following in tabular form is a synopsis of the demographics of the assessment area:

| <b>Table 2 – Selected Demographic Information Regarding Assessment Area</b> |                                |                                   |                              |                                     |
|---|--------------------------------|-----------------------------------|------------------------------|-------------------------------------|
| <b>1990 Income Range</b>  | <b>Number of Census Tracts</b> | <b>Population by Census Tract</b> | <b>Number of Businesses</b>  | <b>Owner Occupied Housing Units</b> |
| Low:<br>0% - < 50% MFI  | 3<br>3.3%                      | 5,858<br>1.3%                     | 517<br>1.7%                  | 432<br>0.4%                         |
| Moderate:<br>50% - < 80% MFI  | 16<br>17.8%                    | 72,771<br>16.0%                   | 4,842<br>15.4%               | 12,698<br>12.8%                     |
| Middle:<br>80% - < 120% MFI   | 32<br>35.6%                    | 172,901<br>37.9%                  | 9,336<br>29.8%               | 34,512<br>34.9%                     |
| Upper:<br>≥ 120% MFI  | 38<br>42.2%                    | 204,155<br>44.8%                  | 16,656<br>53.1%              | 51,337<br>51.9%                     |
| <b>Assessment Area Totals:</b>  | <b>90*</b><br><b>100%</b>      | <b>455,685</b><br><b>100%</b>     | <b>31,351</b><br><b>100%</b> | <b>98,979</b><br><b>100%</b>        |

\* - includes one undefined census tract

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

### Sampling Information

As of March 31, 2002, the bank's Report of Condition reflected 18.6 percent of the loan portfolio in construction and land development, 21.0 percent in commercial real estate mortgages, and 31.3 percent in commercial and industrial loans. Combined, these loans total 70.9 percent of the total loan portfolio and reiterate the bank's dependence on its commercial products. Consumer lending comprises 15.9 percent of the bank's loans and is not considered by bank management to be a major product line. Residential mortgage lending totals 13.3 percent of the loan portfolio, but represents only seven mortgage loans.

Since the combination of the bank's various commercial loan products totals almost 71 percent of the bank's loan portfolio, that class of loans was chosen for analysis to demonstrate the bank's lending patterns in their assessment area. The bank provided information detailing all of their loan originations for the previous 12 months. However, since this is the bank's first evaluation for compliance with CRA, the larger universe of outstanding commercial loans was used for sampling. These represented originations since the bank opened. Stratification of that information revealed 133 commercial originations totaling \$17.9 million. From this universe, a sample of 34 commercial loans totaling \$4.9 million was selected for analysis using the assessment criteria under the lending test to determine the bank's performance under the requirements of CRA.

### Loan-to-Deposit Ratio

The loan-to-deposit ratio (LTD) is a measure of a bank's lending activity that compares the volume of loans extended to the volume of deposits held. HBank Texas has demonstrated satisfactory performance in the volume of lending granted. Table 3 below details the bank's lending as compared to other local competing institutions of comparable asset size. Please note that these banks are listed alphabetically by city and that no ranking is intended or implied.

| Table 3 – Loan-to-Deposit Ratios – Comparable Banks |                  |                     |             |             |  |
|---|------------------|---------------------|-------------|-------------|--|
| Bank  | City             | Total Assets (000s) | Average LTD | Current LTD |  |
| Northwest National Bank                             | Arlington        | \$67,595            | 68.0        | 61.3        |  |
| National Bank of Texas                              | Fort Worth       | \$63,391            | 44.8        | 49.3        |  |
| Riverbend Bank                                      | Fort Worth       | \$36,583            | 72.6        | 67.6        |  |
| Community Bank of Texas                             | Grand Prairie    | \$26,015            | 47.2        | 62.3        |  |
| <b>HBank Texas</b>                                  | <b>Grapevine</b> | <b>\$39,225</b>     | <b>41.8</b> | <b>49.6</b> |  |
| First Financial Bank, NA                            | Southlake        | \$64,546            | 71.2        | 71.8        |  |

Community Bank of Texas, Grand Prairie, is the bank listed above that is most similar to HBank Texas. Community Bank of Texas is also a de novo instituting opening in 2001. The bank's performance compares reasonably with that evidenced by other similarly situated institutions in the assessment area, particularly in light of the bank's relative age.



### **Lending in the Assessment Area**

HBank Texas has demonstrated adequate performance in lending within its designated assessment area. 25 loans totaling \$3.8 million of the original 34 loan sample totaling \$4.9 million, were originated within the assessment area. This represents 73.5 percent of the number and 77.0 percent of the dollar volume of the sample and indicates a solid majority of the bank's lending originates within the designated assessment area. HBank Texas is considered to have demonstrated satisfactory performance in relation to this criterion.

### **Lending to Businesses of Different Sizes**

HBank Texas has demonstrated satisfactory performance in lending to businesses of different sizes. Performance under this criterion is judged, for commercial lending, by analyzing the size of the loans the bank has extended and the annual revenues of their commercial borrowers. From the original sample of 34 loans, the 25 loans totaling \$3.8 million extended within the assessment area were used in this evaluation.

Table 4 below details the stratification of commercial originations by loan size.

| <b>Table 4 – Stratification by Commercial Loan Size</b> |               |                    |                        |                       |
|---|---------------|--------------------|------------------------|-----------------------|
| <b>Original \$</b>                                      | <b>Number</b> | <b>% of Number</b> | <b>\$ Volume (000)</b> | <b>% of \$ Volume</b> |
| <\$100M   | 17            | 68.0               | 600                    | 15.9                  |
| \$100M-\$500M   | 5             | 20.0               | 953                    | 25.2                  |
| \$500M-\$1,000M   | 3             | 12.0               | 2,224                  | 58.9                  |
| <b>Total</b>  | <b>25</b>     | <b>100.0</b>       | <b>3,777</b>           | <b>100.0</b>          |

Analysis shows that that 68 percent of the commercial loans extended by the bank have been in amounts of less than \$100,000. None of the bank's commercial originations have exceeded \$1,000,000. This large majority of small dollar volume originations is a clear indication of the bank's service to small businesses in the assessment area.

Table 5 below further examines the bank's commercial lending patterns by stratifying those originations by revenues of the businesses involved.

| <b>Table 5 – Stratification by Gross Annual Borrower Revenue</b> |  |               |               |                        |                |
|--|--|---------------|---------------|------------------------|----------------|
| <b>Revenue Level</b>   | <b>Businesses in Assessment Area (%)</b> | <b>Number</b> | <b>% of #</b> | <b>\$ Volume (000)</b> | <b>% of \$</b> |
| <\$1,000M  | 84.5                                     | 18            | 72.0          | \$2,717                | 71.9           |
| >\$1,000M  | 8.2                                      | 7             | 28.0          | \$1,060                | 28.1           |
| Not reported   | 7.3                                      | 0             | 0             | 0                      | 0              |
| <b>Total</b>   | <b>100.0</b>                             | <b>25</b>     | <b>100.0</b>  | <b>\$3,777</b>         | <b>100.0</b>   |

From the sample, 72 percent of the bank's commercial borrowers report gross annual revenues of less than \$1 million, which is the upper benchmark for small businesses. In comparison, Dun & Bradstreet estimates that 84.5 percent of all businesses in the assessment area have similar incomes. Again, the bank's performance in extending a majority of their commercial originations to small businesses compares reasonably to assessment area demographics and

demonstrates their service to the assessment area in terms of serving the credit needs of the types of businesses located there. Considering HBank Texas' commercial lending patterns relative to both loan size and borrower income, performance under this criterion is considered satisfactory.

### **Geographic Distribution of Credit**

Since HBank Texas' assessment area is so heavily skewed to upper- and middle-income geographies, this criterion is weighted less heavily in assessing the bank's performance. Nevertheless, the bank has performed very well in lending throughout its assessment area. As stated above, the portion of the commercial loan sample identified as falling within the bank's assessment area was used for analysis. Table 6 below illustrates the distribution of those commercial loan originations throughout the assessment area. The table demonstrates a very good correlation between the bank's geographic distribution of credit, as measured by the number of loans made, and the actual portion of commercial entities in the geographies in each income strata. In fact, the bank's lending by number of loans in both low- and moderate-income tracts exceeds the percentage of businesses attributable to those geographies. This is particularly noteworthy considering the low- and moderate-income geographies are located on the outskirts of the bank's assessment area somewhat removed from the bank's lone office. Measurement by dollar volume is considered reasonable considering three large dollar volume loans to larger businesses totaled \$2,224,000 and skewed the data. Greater weight is placed on the number of loans extended as opposed to the dollar volume.

| <b>Table 6 – Geographic Distribution of Commercial Credit</b> |  |               |                    |                        |                       |
|---|--|---------------|--------------------|------------------------|-----------------------|
| <b>Tract Income Level</b>                                     | <b>Businesses in Assessment Area (%)</b> | <b>Number</b> | <b>% of Number</b> | <b>\$ Volume (000)</b> | <b>% of \$ Volume</b> |
| Low   | 1.7                                      | 3             | 12.0               | 257                    | 6.8                   |
| Moderate  | 15.4                                     | 4             | 16.0               | 120                    | 3.2                   |
| Middle  | 29.8                                     | 5             | 20.0               | 116                    | 3.0                   |
| Upper   | 53.1                                     | 13            | 52.0               | 3,284                  | 87.0                  |
| Total   | 100.0                                    | 25            | 100.0              | 3,777                  | 100.0                 |

In summary, HBank Texas demonstrates an excellent penetration of both low- and moderate-income geographies in the assessment area, and evidences performance that exceeds expectations under this performance criterion.

### **Response to Complaints**

Review of bank correspondence indicates no CRA-related complaints were filed with the FDIC. Therefore, this factor was not considered in determining the bank's performance.

### **Fair Lending**

No violations of the substantive provisions of anti-discrimination laws or regulations were identified. Bank policy and practices support equivalent treatment of all applicants in lending and credit-related activities.

## ***GLOSSARY***

### **GEOGRAPHY TERMS**

**Census Tract:** Small subdivisions of metropolitan and other densely populated counties.

Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan statistical areas. They usually have between 2,500 and 8,000 persons, and their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

**Metropolitan Area (MA):** One or more large population centers and adjacent communities that have a high degree of economic and social integration. Each MA must contain either a place with a minimum population of 50,000 or Census Bureau-defined urbanized area and a total MA population of at least 100,000. An MA comprises one or more central counties and may include one or more outlying counties that have close economic and social relationships with the central county.

**Metropolitan Statistical Area (MSA):** One or more metropolitan areas that have economic and social ties.

### **HOUSING TERMS**

**Family:** Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified into “male householder” (a family with a male householder and no wife present) or “female household” (a family with a family householder and no husband present).

**Household:** Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always the count of occupied housing units.

**Housing Unit:** Includes a house, an apartment, a mobile home, a group of rooms, or a single room that is occupied as separate living quarters.

**Owner-Occupied Units:** Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

## INCOME TERMS

**Median Income:** The median income divides the income distribution into two equal parts, one having incomes above the median and the other having incomes below the median.

**Area Median Income:** The median family income for the MSA, if a person or geography is located in an MSA; or the statewide non-metropolitan median family income, if a person or geography is located outside an MSA.

**Family Income:** Includes the income of all members of a family that are age 15 and older.

**Household Income:** Includes the income of the householder and all other persons that are age 15 and older in the household, whether related to the householder or not. Because many households consist of only one person, median household is usually less than median family income.

**Low-Income:** Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent in the case of a geography.

**Moderate-income:** Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent in the case of a geography.

**Middle-income:** Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent in the case of a geography.

**Upper-income:** Individual income that is more than 120 percent of the area median income, or a median family income that is more than 120 percent in the case of a geography.

**HUD Adjusted Income Data:** The U.S. Department of Housing and Urban Development (HUD) issues annual estimates, which update median family income from the metropolitan and non-metropolitan areas. HUD starts with the most recent U.S. Census data and factors in information from other sources to arrive at an annual estimate that more closely reflects current economic conditions.

## OTHER TERMS

**Home Mortgage Disclosure Loan Application Register (HMDA LAR):** The HMDA LARs record all applications received for residential purchase, refinance, home improvement and temporary-to-permanent construction loans.

**Small Business Loan:** A loan included in “loans to small businesses” as defined in the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$1million or less and are either secured by nonfarm nonresidential properties or are classified as commercial and industrial loans.

